

Congress of the United States  
U.S. House of Representatives  
Committee on Small Business  
2361 Rayburn House Office Building  
Washington, DC 20515-0515

**MEMORANDUM**

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**To:** Members, Subcommittee on Economic Growth, Tax, & Capital Access  
**From:** Andy Kim, Chairman  
**Date:** February 5, 2019  
**Re:** Subcommittee hearing: “Exploring Challenges and Opportunities of Underserved Businesses in the 21st Century”

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The Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access will meet for a hearing titled, “Exploring Challenges and Opportunities of Underserved Businesses in the 21st Century.” The hearing is scheduled to begin at **10:00 A.M. on Thursday, February 7, 2019 in Room 2360 of the Rayburn House Office Building**. The hearing will allow Members to explore the challenges faced by women-owned, minority-owned, veteran-owned businesses, and rural businesses; how those businesses have overcome those challenges; and how Congress can enhance opportunities for growth within each of those entrepreneurial communities. Witnesses will include:

- Sharon Pinder, President & CEO, Capital Region Minority Supplier Development Council
- Marla Bilonick, Executive Director, Latino Economic Development Center
- Davy Leghorn, Assistant Director, American Legion Veterans Employment & Education Division
- Michael Romano, Senior Vice President, Industry Affairs & Business Development, NTCA – The Rural Broadband Association

**Background**

Every day, America’s small businesses face numerous challenges, from accessing affordable capital to finance their operations and grow their businesses, to being competitive in the lucrative federal procurement market. However, these challenges are magnified for minority-owned, women-owned, veteran-owned, and rural businesses.

**Small Business and the Economy**

In 2018, there were 30.2 million small businesses in the United States, accounting for 99.9 percent of all businesses and employing nearly 59 million employees.<sup>1</sup> Of those 30.2 million small businesses, approximately 8 million were minority-owned.<sup>2</sup> According to the National Minority Supplier Development Council, minority businesses generate more than \$400 billion in annual

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<sup>1</sup> SBA Office of Advocacy, 2018 SMALL BUSINESS PROFILE (2018), <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf>.

<sup>2</sup> See *supra* note 1.

revenue and actively employ, either directly or indirectly, more than 2.2 million people.<sup>3</sup> Meanwhile, in 2012, women were majority owners of 9.9 million businesses which generated \$1.4 trillion in sales and employed over 8.4 million individuals.<sup>4</sup> In that same year, there were 2.52 million businesses that were majority-owned by veterans, representing 9.1 percent of all firms.<sup>5</sup> They also employed over 5 million people and had receipts worth \$1.14 trillion.<sup>6</sup> Recognizing these contributions to the overall economy and local communities makes it imperative to also consider the challenges they face in accessing critical resources to continue supporting the nation's economy.

### **Access to Capital**

As a general matter, entrepreneurs consistently report access to affordable capital is essential for starting a small business, hiring employees, and expanding operations. Though most small businesses struggle at one point or another with accessing capital, those challenges are magnified for underserved businesses. Without adequate access to funding, small firms often fail to realize their full potential, which inhibits growth in local communities.

The challenges accessing both venture capital and traditional loans are similar for many small business owners and a variety of factors account for funding discrepancies. A growing number of studies indicate that limited financial, human resources, and awareness are responsible for these disparities in lending. Many banks rely on the business owner's personal credit profile when assessing risk, causing bad credit scores and insufficient credit among the top cited reasons for loan denials.<sup>7</sup> This results in discouragement and fear on behalf of the borrower and thus a reliance on personal financing options. Furthermore, a lack of collateral or an unwillingness to use personal assets to guarantee a loan leads some small employers to forgo traditional bank loans.

Many minority- and women-owned enterprises report difficulty accessing traditional loans. Overall, women receive just 16 percent of all conventional small business loans and only 4.4 percent of the total dollar amount.<sup>8</sup> This data also translates to the private investment market wherein venture capital (VC) investments tend to flow more towards male-owned businesses. In fact, of the \$85 billion VC invested in 2017, women-owned ventures received only 1.9 percent and

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<sup>3</sup> National Minority Supplier Development Council, ECONOMIC IMPACT REPORT: THE EFFECTS OF NMSDC CERTIFIED MINORITY BUSINESS ENTERPRISES ON THE U.S. ECONOMY (2015) [http://www.nmsdc.org/wp-content/uploads/Economic\\_Impact\\_Report\\_FINAL.pdf](http://www.nmsdc.org/wp-content/uploads/Economic_Impact_Report_FINAL.pdf)

<sup>4</sup> SBA Office of Advocacy Issue Brief, WOMEN'S BUSINESS OWNERSHIP: DATA FROM THE 2012 SURVEY OF BUSINESS OWNERS (2017) <https://www.sba.gov/sites/default/files/advocacy/Womens-Business-Ownership-in-the-US.pdf>.

<sup>5</sup> SBA Office of Advocacy Research Summary, VETERAN-OWNED BUSINESSES AND THEIR OWNERS: DATA FROM THE U.S. CENSUS BUREAU'S SURVEY OF BUSINESS OWNERS (2017) <https://www.sba.gov/sites/default/files/advocacy/435-veteran-owned-businesses-summary.pdf>.

<sup>6</sup> *Id.*

<sup>7</sup> Federal Reserve Bank of Cleveland and Federal Reserve Bank of Atlanta, SMALL BUSINESS CREDIT SURVEY: REPORT ON MINORITY-OWNED FIRMS (2017) <https://www.fedsmallbusiness.org/survey/2017/report-on-minority-owned-firms>.

<sup>8</sup> Senator Maria Cantwell, 21ST CENTURY BARRIERS TO WOMEN'S ENTREPRENEURSHIP: MAJORITY REPORT OF THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP (2014) [https://www.sbc.senate.gov/public/\\_cache/files/3/f/3f954386-f16b-48d2-86ad-698a75e33cc4/F74C2CA266014842F8A3D86C3AB619BA.21st-century-barriers-to-women-s-entrepreneurship-revised-ed.-v.1.pdf](https://www.sbc.senate.gov/public/_cache/files/3/f/3f954386-f16b-48d2-86ad-698a75e33cc4/F74C2CA266014842F8A3D86C3AB619BA.21st-century-barriers-to-women-s-entrepreneurship-revised-ed.-v.1.pdf).

received smaller average deal sizes when compared to men – 5 percent and 12 percent respectively.<sup>9</sup> Minority-owned concerns report similar findings in that they are less likely to utilize a business loan as well as even apply for a loan. The Minority Business Development Agency (MBDA) found that minority-owned firms had denial rates three times higher than non-minority businesses.<sup>10</sup> According to a report by the Small Business Administration (SBA) Office of Advocacy, roughly 30 percent of minority entrepreneurs felt discouraged from applying for a loan, compared to 16 percent of non-minorities.<sup>11</sup>

Like women and minority business owners, veteran business owners also face similar challenges financing their businesses. Despite similar demand for financing, 60 percent of veteran-owned firms have reported a financing shortfall, compared with 52 percent of nonveteran-owned firms.<sup>12</sup> Veteran-owned businesses also experienced approval rates that were approximately 10 percent lower than those for nonveteran-owned businesses across the top three sources of credit (loans, lines of credit, and cash advances), suggesting that veteran business borrowers face financing challenges regardless of the financing source.<sup>13</sup> Because of these challenges obtaining capital, almost 60 percent of veterans start their business with personal or family savings, and roughly 21 percent of them use personal savings to finance their growth.<sup>14</sup>

In response to these challenges, minority- and women-owned firms are generally more likely to rely on personal sources of funding, such as savings or credit, and are more likely to use future sales as collateral more often than white-owned firms.<sup>15</sup> When compared to men, women and minorities hold higher amounts of business financing on personal credit cards and take more loans from friends and family.<sup>16</sup> Moreover, black- and Hispanic-owned firms tend to apply for higher-cost products and are more likely to apply to online lenders.<sup>17</sup>

### Opportunities for Success

Supporting small businesses, particularly underserved ones has been a policy priority for many years. One such effort is through the SBA's loan programs to encourage more lending to women,

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<sup>9</sup> Fortune, FEMALE FOUNDERS GOT 2% OF VENTURE CAPITAL DOLLARS IN 2017 (2018) <http://fortune.com/2018/01/31/female-founders-venture-capital-2017/>.

<sup>10</sup> Minority Business Development Agency, DISPARITIES IN CAPITAL ACCESS BETWEEN MINORITY AND NON-MINORITY-OWNED BUSINESSES: THE TROUBLING REALITY OF CAPITAL LIMITATIONS FACED BY MBES (2010) <https://www.mbda.gov/page/executive-summary-disparities-capital-access-between-minority-and-non-minority-businesses>.

<sup>11</sup> SBA Office of Advocacy Issue Brief, MINORITY BUSINESS OWNERSHIP: DATA FROM THE 2012 SURVEY OF BUSINESS OWNERS (2016) <https://www.sba.gov/sites/default/files/advocacy/Minority-Owned-Businesses-in-the-US.pdf>.

<sup>12</sup> SBA and Federal Reserve Bank of New York, FINANCING THEIR FUTURE: VETERAN ENTREPRENEURS AND CAPITAL ACCESS (2018) <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2017/Report-on-Veteran-Entrepreneurs-and-Capital-Access.pdf>.

<sup>13</sup> *Id.*

<sup>14</sup> SBA Office of Advocacy, VETERAN-OWNED BUSINESSES AND THEIR OWNERS: DATA FROM THE U.S. CENSUS BUREAU'S SURVEY OF BUSINESS OWNERS (2017) <https://www.sba.gov/sites/default/files/advocacy/435-veteran-owned-businesses-report.pdf>.

<sup>15</sup> *See supra* note 7.

<sup>16</sup> *See generally*, Emma Williams-Baron, Jessica Milli, and Barbara Gault, INNOVATION AND INTELLECTUAL PROPERTY AMONG WOMEN ENTREPRENEURS (2018) [https://iwpr.org/wp-content/uploads/2018/07/C472\\_Report-Innovation-and-Entrepreneurship-9.6.18-clean.pdf](https://iwpr.org/wp-content/uploads/2018/07/C472_Report-Innovation-and-Entrepreneurship-9.6.18-clean.pdf); *see also supra* note 7.

<sup>17</sup> *See supra* note 7.

minorities, and veterans. SBA currently offers lending products designed for businesses at various stages of growth. SBA's flagship lending product is the 7(a) loan guaranty program. Under this program, banks and other financial institutions make loans to small businesses that are subsequently partially guaranteed by SBA. The 504/Certified Development Company loan guaranty program uses CDCs, which are private, nonprofit corporations established to contribute to economic development within their communities. The program provides long-term, fixed rate loans for major fixed assets such as land, structures, machinery, and equipment. Program loans cannot be used for working capital, inventory, or repaying debt. The Microloan program provides direct loans and grants to qualified non-profit intermediary microlenders who in turn, provide microloans of up to \$50,000 to small businesses. Microloan lenders also provide marketing, management, and technical assistance to Microloan borrowers and potential borrowers. Finally, SBA is currently administering the Community Advantage (CA) pilot program, which provides mission-based lenders access to 7(a) loan guaranties as high as 85 percent for loans up to \$250,000. Lenders also have access to SBA's network of enhanced management and technical assistance.

Meanwhile, the United States Department of Agriculture (USDA) offers numerous loans, loan guaranties, and grants designed to enhance rural small businesses. For example, the Community Connects grant program helps fund broadband deployment into rural communities where it is not yet economically viable for private sector providers to deliver service. The USDA's Distance Learning and Telemedicine grant program helps rural communities use the unique capabilities of telecommunications to connect to each other and to the world, overcoming the effects of remoteness and low population density. This hearing will give Members a chance to hear from industry stakeholders representing various underserved business communities regarding the credit challenges faced by businesses in those communities, ways those businesses have sought to address those challenges, and what best practices policymakers and the federal government can glean from those experiences.

### **Mentoring and Technical Assistance**

Entrepreneurs and small business owners interested in expanding their enterprises benefit from technical expertise associated with starting and running a profitable venture. There is a strong relationship between technical assistance and a positive success rate for small businesses. One survey found that roughly 70 percent of small businesses receiving mentoring are twice as likely to succeed.<sup>18</sup> This is particularly true of small business owners located in underserved rural and inner-city communities. Such assistance reduces their isolation from buyers and other businesses and helps them reach new markets.

However, the leading barrier to many business founders is the lack of similarly situated mentors. For example, slightly over half of women claimed they had access to senior women as mentors<sup>19</sup> and more veterans are finding it harder to locate experienced veteran business owners because

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<sup>18</sup> Caron Beesley, WHY A MENTOR IS KEY TO SMALL BUSINESS GROWTH AND SURVIVAL (2014) <https://www.sba.gov/blogs/why-mentor-key-small-business-growth-and-survival-0>.

<sup>19</sup> Egon Zehnder, LEADERS & DAUGHTERS GLOBAL SURVEY 2017 (2017) [https://s3-eu-west-1.amazonaws.com/public-gbda/Leaders\\_Daughters\\_Final.pdf](https://s3-eu-west-1.amazonaws.com/public-gbda/Leaders_Daughters_Final.pdf); *see also* Forbes, FOUR MYTHS THAT PERPETUATE THE SCARCITY OF FEMALE MENTOR-MENTEE RELATIONSHIPS (2018) <https://www.forbes.com/sites/falonfatemi/2018/05/15/four-myths-that-perpetuate-the-scarcity-of-female-mentor-mentee-relationships/#b8ba2915e0f8>.

veteran entrepreneurship has dropped precipitously in recent decades.<sup>20</sup> Moreover, one minority entrepreneur and CEO indicated that only 1 percent of resources within the technology community were dedicated to minority founders.<sup>21</sup> This means that although mentorship opportunities are usually few and far between for women, veterans, and minority entrepreneurs, these opportunities may be even more limited depending on the industry in which an entrepreneur operates.

### *Opportunities for Success*

The SBA's Office of Entrepreneurial Development's mission is to help small businesses start, grow, and compete in global markets by providing quality training, counseling, and access to resources. The office oversees a network of programs and services, run by resource partners located throughout the country, that support the training and counseling needs of small business. Among these programs are the Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), SCORE, and the Veteran's Business Outreach Centers (VBOCs) within the SBA's Office of Veteran's Business Development. Their mission is to provide small businesses, especially underserved ones, the opportunity to gain technical assistance and counseling on a number of topics.

Additionally, the mentor-protégé program within the federal government assists small businesses wishing to engage in the federal marketplace. By pairing new businesses with those more experienced, the program creates relationships to help both companies succeed. Mentors generally receive credit towards goals and other incentives while the protégé receives financial, technical, and management assistance. One of the most well-known programs is the 8(a) Mentor-Protégé program designed to assist small businesses owned and controlled by socially and economically disadvantaged individuals. The Small Business Jobs Act of 2010<sup>22</sup> established similar mentor-protégé programs for small concerns owned by other underserved populations, such as service-disabled veterans, women, and HUBZone participants. Members will learn more about the mentorships, technical assistance, and mentor-protégé programs and how they can be expanded upon or improved to help more small firms.

### **Federal Procurement**

The federal marketplace has doubled in size over the past decade, but it remains difficult for small businesses to break into it without assistance. A diverse supply chain within the federal market ensures quality goods and services at competitive prices. Despite small business goals and set-asides, small contractors still face challenges.

According to the U.S. Department of Commerce, women-owned businesses are 21 percent less likely than male counterparts to win federal contracts.<sup>23</sup> As further evidence of these challenges, the federal government failed to meet its goal of awarding 5 percent of eligible federal contracts

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<sup>20</sup> Inc., WHERE ARE ALL THE MISSING VETERAN-OWNED BUSINESSES? (2016) <https://www.inc.com/magazine/201610/kimberly-weisul/missing-veteran-owned-businesses.html>.

<sup>21</sup> Entrepreneur, 5 ORGANIZATIONS HELPING MINORITY STARTUP FOUNDERS SUCCEED (2016) <https://www.entrepreneur.com/article/282529>.

<sup>22</sup> P.L. 111-240.

<sup>23</sup> U.S. Department of Commerce, UTILIZATION OF WOMEN-OWNED BUSINESSES IN FEDERAL PRIME CONTRACTING (2015) [https://www.sba.gov/sites/default/files/wosb\\_study\\_report.pdf](https://www.sba.gov/sites/default/files/wosb_study_report.pdf).

to women-owned firms in 2016.<sup>24</sup> One possible contributing factor may be the increased use of Multiple Award Contracts (MACs) by federal agencies.<sup>25</sup> These large contracts consist of multiple vendors supplying unlimited goods or services over a specified period of time, often five to 10 years.<sup>26</sup> A 2016 Women Impacting Public Policy (WIPP) study reported that MACs represent 21 percent of all federal procurement spending, and 17 of the 20 largest contracting opportunities were MACs in FY2017.<sup>27</sup> WIPP examined 19 MACs and found that only three provided set aside tracks for women-owned small businesses, a tool that can help women-owned firms compete for federal procurement dollars in industries where they have been underrepresented.<sup>28</sup> However, when given access to contracting opportunities through MACs, women-owned businesses received approximately 20 percent of contract dollars - \$4.86 billion.<sup>29</sup>

### *Opportunities for Success*

The SBA Office of Inspector General reported that between 2010 and 2015, there was a steady decline in the number of firms participating in SBA's 8(a) program, from approximately 7,000 in 2010, to approximately 4,600 in 2015.<sup>30</sup> Following that decline, SBA leadership developed an aggressive growth plan to increase the number of participants in the 8(a) program by piloting a streamlined application process and shifting responsibilities for continuing eligibility.<sup>31</sup> This effort yielded a 7 percent increase in the number of participants in the 8(a) program between August 2016 and March 2017, from approximately 4,900 participants to 5,270 participants.<sup>32</sup> This suggests that streamlining some processes helps small and diverse would-be contractors maximize their competitiveness in the federal procurement marketplace.

### **Rural Resources and Investment**

While rural small businesses face some similar challenges as their urban counterparts, several remain uniquely rural obstacles. For instance, though the opioid addiction epidemic impacts rural and urban areas alike, our country's rural areas are experiencing net outmigration to urban areas as young people seek greater educational and economic opportunities in our cities. The net outmigration from rural to urban areas is fueled in large part by the perception of greater economic and educational opportunities in cities and more urbanized areas. This leads to issues in rural areas regarding workforce development, including the extent to which the rural labor pool is unemployed due to opioid addiction, insufficient education, age, or other issues.

### *Opportunities for Success*

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<sup>24</sup> SBA, GOVERNMENT-WIDE PERFORMANCE, FY 2016 SMALL BUSINESS PROCUREMENT SCORECARD (2017) [https://www.sba.gov/sites/default/files/aboutsbaarticle/SB\\_Procurement\\_Scorecard\\_Gov-Wide\\_final.pdf](https://www.sba.gov/sites/default/files/aboutsbaarticle/SB_Procurement_Scorecard_Gov-Wide_final.pdf).

<sup>25</sup> Senator Jeanne Shaheen, TACKLING THE GENDER GAP: WHAT WOMEN ENTREPRENEURS NEED TO THRIVE (2017) [https://www.sbc.senate.gov/public/\\_cache/files/2/5/25bd7ee9-a37b-4d2b-a91a-8b1ad6f5bd58/536DC6E705BBAD3B555BFA4B60DEA025.sbc-tackling-the-gender-gap.december-2017-final.pdf](https://www.sbc.senate.gov/public/_cache/files/2/5/25bd7ee9-a37b-4d2b-a91a-8b1ad6f5bd58/536DC6E705BBAD3B555BFA4B60DEA025.sbc-tackling-the-gender-gap.december-2017-final.pdf).

<sup>26</sup> *Id.*

<sup>27</sup> Women Impacting Public Policy, WOMEN SHUT OUT OF U.S. GOVERNMENT'S BIGGEST CONTRACTS (2016) [http://c.yimcdn.com/sites/www.wipp.org/resource/resmgr/press\\_releases/WIPP\\_Do\\_Not\\_Enter\\_Report\\_Fin.pdf](http://c.yimcdn.com/sites/www.wipp.org/resource/resmgr/press_releases/WIPP_Do_Not_Enter_Report_Fin.pdf).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

<sup>30</sup> SBA Office of Inspector General Audit Report, SBA's 8(A) BUSINESS DEVELOPMENT PROGRAM ELIGIBILITY (2016) [https://www.sba.gov/sites/default/files/oig/16-13\\_SBAs\\_8a\\_Business\\_Development\\_Program\\_Eligibility.pdf](https://www.sba.gov/sites/default/files/oig/16-13_SBAs_8a_Business_Development_Program_Eligibility.pdf).

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

Rural areas in the U.S. are generally more isolated than urban areas and have lower broadband adoption rates. In 2015, more than half of U.S. residents who lacked access to broadband lived in rural areas.<sup>33</sup> This lack of access to broadband internet means our nation's rural residents are losing out on optimized efficiency in the realms of health care, education, energy, agriculture, and commerce. Although the lack of broadband access is one of the prime challenges facing rural communities, it also represents the biggest opportunity given the economic value-add to main street businesses and consumers. A 2016 report published by the Hudson Institute in conjunction with the Foundation for Rural Service found that investment by rural broadband companies contributed almost \$25 billion to the economies of the states in which they operated in 2015.<sup>34</sup> Of this, \$8.3 billion benefitted rural areas. Moreover, the Federal Communications Commission's (FCC) High-Cost Universal Service Fund (USF) allows providers to keep rates affordable for consumers as the primary, and in many cases the only, tool to ensure that those living in deeply rural areas can purchase telecommunications services that are reasonably comparable to what urban residents receive at comparable rates.

### **Conclusion**

Businesses in each of the entrepreneurial communities highlighted above experience significant challenges that have the potential to seriously limit a small business' chance of success. However, by studying the experiences of businesses in numerous other sectors, we can learn about best practices used in some sectors that might be helpful in others. The purpose of this hearing, therefore, is to explore the challenges businesses in each of these communities face, discuss any potential effective mechanisms for addressing them, and identify any opportunities for growth and ways federal policies can enhance those opportunities.

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<sup>33</sup> The Brookings Institution Metropolitan Policy Program, SIGNS OF DIGITAL DISTRESS: MAPPING BROADBAND AVAILABILITY AND SUBSCRIPTION IN AMERICAN NEIGHBORHOODS (2017) [https://www.brookings.edu/wp-content/uploads/2017/09/broadbandreport\\_september2017.pdf](https://www.brookings.edu/wp-content/uploads/2017/09/broadbandreport_september2017.pdf).

<sup>34</sup> The Hudson Institute and The Foundation for Rural Service, THE ECONOMIC IMPACT OF RURAL BROADBAND (2016) <https://www.hudson.org/research/12429-hudson-institute-releases-report-on-economic-impact-of-broadband-in-rural-communities>.